3(r)(47) of the Communications Act

32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from book costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?

The Commission should not mandate conversion to proxy systems or competitive bidding for small carriers. Such methods must be demonstrated as accurate, over time, before they can rationally be required for smaller carriers. The Commission should recognize, as well, that some carriers, particularly the smallest ones, may never fit within proxy model specifications.

NECA's analysis of these models shows that, while they may work for larger companies, they should not be used to determine high cost support amounts for small companies. The primary reason for this conclusion is that the "theoretical" cost results produced by the models for smaller companies vary greatly from actual costs. These variances, which are due in part to "mapping" problems between census block groups and actual operating territories of small companies, may not be a significant problem for larger companies because the errors produced by the models tend to "average out" over the large number of census block groups served by these companies. For smaller companies, serving only a few census block groups, such errors could be devastating. Actual cost data for small incumbent LECs is readily available, and is subject to extensive verification and reconciliation processes. These methods should not be replaced.

If the Commission nevertheless decides to adopt mandatory conversion rules, it is

critical that reasonable initial effective dates and transition periods be adopted. Significant changes in high-cost allocation rules must be accompanied by transition periods that are proportional to the magnitude of cost shifts. A major change in the USF rules, for example, should be phased in over an extended period of time (as occurred, for example, with the eight-year SPF phase down). Companies that have made significant investments in serving high-cost areas in reliance on the current cost recovery rules, especially, need time to adapt.

As explained above in NECA's response to question 26, where non-incumbent exchange carriers are designated as "eligible" carriers for areas served by small exchange carriers, they should be required to report their own actual costs of serving the area in which they receive such a designation. Among other advantages, this approach would equalize regulatory burdens between incumbent and non-incumbent eligible carriers and assure that high cost support is paid only where justified. Rule revisions would also be needed to assure that per-line universal service payments to new eligible LECs do not exceed amounts payable to the incumbent LEC.

33. If a proxy model is used, should carriers serving areas with subscription below a certain level continue to receive assistance at levels currently produced under the HCF and DEM weighting subsidies?

Incumbent exchange carriers should continue to qualify for support at levels comparable to those produced under the current HCF and DEM weighting programs regardless of subscribership levels. As discussed above in response to question 1, supra, maintenance and advancement of universal service is critically dependent on the continued

availability of high-cost recovery for small companies based on the actual costs of providing service

Proxy Models

34. What, if any, programs (in addition to those aimed at high-cost areas) are needed to ensure that insular areas have affordable telecommunications service?

Existing high cost mechanisms have been shown to be the most accurate for purposes of identifying areas with high loop and switching costs regardless of whether the areas are insular or located on the mainland Issues relating to long distance rates for traffic originating and terminating in insular areas should be considered after the Commission's toll rate averaging proceeding, CC Docket No. 96-61, if not in that proceeding.

35. US West has stated that an industry task force "could develop a final model process utilizing consensus model assumptions and input data," US West comments at 10. Comment on US West's statement, discussing potential legal issues and practical considerations in light of the requirement under the 1996 Act that the Commission take final action in this proceeding within six months of the Joint's Board's recommended decision.

Substantial progress continues to be made in proxy model development. Efforts are underway in a number of critical areas including model testing, reformulation, calibration and statistical analyses These efforts may make consensus possible among larger companies, but it is not likely that any of the current proxy models will be ready for application on a mandatory basis to small companies for the foreseeable future. As discussed above, current model results show wide variances for sparsely populated areas.

Estimation errors that might not be significant on average, for carriers with numerous census block groups or other study units might be devastating for smaller carriers. Until proxy models are developed that accurately identify costs in the low-density areas that small carriers generally serve, a decision to mandate replacement of current cost-based support mechanisms for small companies with such models would not be supportable under the APA and would almost certainly be set aside on review.

36. What proposals, if any, have been considered by interested parties to harmonize the differences among the various proxy cost proposals? What results have been achieved?

NECA understands that efforts are underway within the industry to combine the most promising elements of the current US WEST BCM model with Pacific Bell's Cost Proxy Model, but does not have yet have data to evaluate the success of this effort.

37. How does a proxy model determine costs for providing only the defined universal service core services?

It is not clear whether results from current proxy models, which are designed to develop cost surrogates for plant investment and expense levels (e.g., loop costs), can be tied to any particular service rate structures (e.g., local exchange service, carrier common line rates, etc.) One possible way to define the costs of providing particular services via a proxy model would be to include or exclude particular service features from the theoretical network designs upon which the models are based. Such methods are likely to rely on arbitrary assumptions, however, and may not be supportable. If proxy cost data for particular services are required, it may be possible to develop allocation factors or percentages that can be applied to the cost data obtained from the proxy.

38. How should a proxy model evolve to account for changes in the definition of core services or in the technical capabilities of various types of facilities?

Proxy models rely to a significant extent on various network engineering assumptions that may become outmoded as new technologies are developed and deployed by telephone companies. These developments should be incorporated into model assumptions when actual deployment reaches significant levels.

39. Should a proxy model account for the cost of access to advanced telecommunications and information services, as referenced in section 254(b) of the Act? If so, how should this occur?

See responses to questions 37 & 38 supra.

40. If a proxy model is used, what, if any, measures are necessary to assure that urban rates and rates in rural, insular, and high-cost areas are reasonably comparable, as required in Section 254(b)(3) of the 1996 Act?

As discussed above, application of proxy methodologies to small telephone companies will seriously jeopardize universal service and will not insure that rates in rural, insular and high cost areas served by these companies are reasonably comparable. If a proxy model is used to allocate support to large companies serving high-cost areas, these concerns are lessened. Rate monitoring programs should not be undertaken unless there is a demonstrated need.

41. How should support be calculated for those areas (e.g., insular areas and Alaska) that are not included under the proxy model?

See response to question 32, supra.

42. Will support calculated using a proxy model provide sufficient incentive to support infrastructure development and maintain quality service?

See response to question 32, supra

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests?

As discussed above, NECA does not believe that current proxy models can be applied on a mandatory basis, especially to small companies. Addition of a waiver procedure would not be sufficient to resolve fundamental questions of accuracy. Alltel Corp. v. F.C.C., 838 F.2d 551 (D.C. Cir. 1988).[11] If, however, after mandating proxy-based distributions for some companies the Commission wishes to permit companies to "opt out" from the proxy approach, procedures would need to be developed to determine the extent to which theoretical costs derived from the model fail to replicate costs.

44. How can a proxy model be modified to accommodate technological neutrality?

As noted above in response to question 38 supra, proxy models are based to some extent on network engineering assumptions. These assumptions can be adjusted to include new or optimal technologies, but must be tested carefully to assure that model performance remains stable.

45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document?

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[11] According to the Court in Alltel, the Commission "cannot save an irrational rule by tacking on a waiver procedure." 838 F.2d at 561, citing WAIT Radio v. FCC, 418 F.2d 1153, 1158 (D.C.Cir.1969).

Adoption of a proxy model on a mandatory basis would constitute "rulemaking" under the Administrative Procedure Act and would accordingly be subject to the substantive and procedural standards for agency action set forth in 5 U.S.C. § 553. This provision of the APA requires, among other things, that interested persons be given a meaningful opportunity to comment on a proposed rule. To the extent that proprietary restrictions on a model or its underlying data impede the ability of interested persons to study and comment on the model, Commission action adopting it would be subject to challenge under the APA. These concerns can perhaps be alleviated by establishing practices or procedures for interested persons to obtain access to relevant proprietary data subject to voluntary non-disclosure agreements.

46. Should a proxy model be adopted if it is based on proprietary data that may not be available for public review?

See response to question 45, supra.

47. If it is determined that proprietary data should not be employed in the proxy model, are there adequate data publicly available on current book costs to develop a proxy model? If so, identify the source(s) of such data.

Exchange carriers are currently required to submit cost data to the Commission in a variety of contexts, including the Commission's Docket 87-339 Monitoring Docket and the ARMIS process. Exchange carriers also report book cost data to NECA, for purposes of USF computations, that is filed on a non-proprietary basis with the Commission under NECA's annual USF data submission. ARMIS and USF data are generally reported at the study area level of detail, which limits their usefulness for

determining sub-study area costs. No such data are provided by new exchange carriers.

48. Should the materiality and potential importance of proprietary information be considered in evaluating the various models?

See response to question 45, supra.

Competitive Bidding

49. How would high-cost payments be determined under a system of competitive bidding in areas with no competition?

As discussed above in response to question 1, NECA strongly urges the Commission to continue basing high-cost support on actual study area costs, at least for small companies serving rural areas. The need for cost-based support is particularly compelling in areas in which no carrier (other than the incumbent LEC) is willing to serve.

As NECA stated in its 1995 NPRM Comments, a system that would determine eligibility for interstate cost recovery of local service based on competitive bids would impose additional costs and create unnecessary complexity, and would require unprecedented Commission involvement in intrastate issues such as local service quality monitoring.

It is critically important that universal service support levels under any new system be based on the most accurate and complete cost of service information available. Allowing support levels to be set on the basis of competitive bids is likely to result in insufficient support payments, in violation of section 254 of the Act, or a "race for the bottom" as competitive carriers seek to capture funding dollars without regard to maintaining or improving service quality or providing technological advancements.

Significant issues of confiscation would arise if incumbent LECs are required to provide facilities or services at non-compensatory rates established pursuant to unrealistic bids submitted by new entrants. Because of the high capital investment required to serve rural areas, the long-term risks of basing support on competitive bids far outweigh the likely benefits.

50. How should a bidding system be structured in order to provide incentives for carriers to compete to submit the low bid for universal service support?

As stated in NECA's response to question 49, supra., a system that would determine eligibility for interstate cost recovery of local service based on competitive bids would impose additional costs and create unnecessary complexity, and would require unprecedented Commission involvement in intrastate issues. Support levels based on competitive bids are likely to be insufficient to assure continuation of universal service, in violation of section 254 of the Act. Accordingly, this approach should not be adopted.

51. What, if any, safeguards should be adopted to ensure that large companies do not bid excessively low to drive out competition?

See response to questions 49 & 50, supra.

52. What safeguards should be adopted to ensure adequate quality of service under a system of competitive bidding?

See response to questions 49 & 50, supra.

53. How should collusion be avoided when using a competitive bid?

See response to questions 49 & 50, supra.

54. Should the structure of the auction differ if there are few bidders? If so, how?

See response to questions 49 & 50, supra.

55. How should the Commission determine the size of the areas within which eligible carriers bid for universal service support? What is the optimal basis for determining the size of those areas, in order to avoid unfair advantage for either the incumbent local exchange carriers or competitive carriers?

Section 214(e)(5) requires that state commissions make determinations as to the "service area" within which carriers are obligated to provide universal service and are eligible for universal service support. For an area served by a rural telephone company, the Act defines the service area as the company's study area until the Commission and the States, following Joint Board action, establish a different definition.

Benchmark Cost Model (BCM)

56. How do the book costs of incumbent local exchange carriers compare with the calculated proxy costs of the Benchmark Cost Model (BCM) for the same areas?

NECA's analysis of results produced by the original BCM showed dramatic variances between book costs of incumbent LECS and theoretical costs produced by the model. See NECA 1995 NPRM Comments at 76-82. NECA's preliminary analysis of the original model indicated that substantial additional study is needed before the BCM could be applied to interstate USF distributions.

US WEST and Sprint, two of the original sponsors of the BCM, have recently released an updated version of the BCM ("BCM2"). MCI and AT&T have also submitted their own proxy model (the "Hatfield model"). In a Public Notice released July 10, 1996, the Commission requested comments on these two models, as well as comment

on Pacific Telesis' Cost Proxy Model and the earlier BCM.

NECA is current analyzing the BCM2 and the CPM, and expects to complete preliminary comparisons of these models soon. A full report of NECA's analysis will be provided in NECA's comments, to be filed by the August 9th date specified in the Commission's Public Notice.

57. Should the BCM be modified to include non-wireline services? If wireless technology proves less costly than wireline facilities, should projected costs be capped at the level predicted for use of wireless technology?

NECA understands that the BCM2 recognizes that some customers may be more reasonably served by emerging "wireless loop" technologies. According to US WEST, the original BCM specifications have been changed to establish a maximum investment per wireline loop. Absent a demonstration that universal service provided using wireless technology is reasonably comparable with universal service provided through wire technology, however, any "capping" of investment for purpose of calculating high cost support would conflict with the 1996 Act's requirement for "sufficient" cost recovery and should therefore not be considered. Such capping based on wireless technology would also be inconsistent with the Commission's goal of technological neutrality in its support programs.

58. What are the advantages and disadvantages of using a wire center instead of a Census Block Group as the appropriate geographic area in projecting costs?

The choice of wire centers or Census Block Groups (CBGs) as the basis for projecting costs via a proxy model is complex. CBGs appear to be more "granular" in size, a factor that theoretically increases accuracy. On the other hand, CBGs are

primarily designed to reflect population distributions, and may not coincide well with telephone company network design factors. Some small companies may cover only one or two CBGs, and in some cases may cover only partial CBGs. The "mapping" problems that result can produce substantial variances between proxy model costs and actual costs.

59. The Maine PUC and several other State commissions proposed inclusion in the BCM of the costs of connecting exchanges to the public switched network through the use of microwave, trunk, or satellite technologies. Those commenters also proposed the use [of] an additional extra-high-cost variable for remote areas not accessible by road. What is the feasibility and the advisability of incorporating these changes into the BCM?

NECA understands that the current BCM2 contains enhancements designed to recognize differences in distribution architecture and actual distributions of customers in rural CBGs. Results of NECA's analysis of the BCM2 will be provided in NECA's August 9th Comments.

60. The National Cable Television Association proposed a number of modifications to the BCM related to switching cost, fill factors, digital loop carrier subscriber equipment, penetration assumptions, deployment of fiber versus copper technology assumptions, and service area interface costs. Which, if any, of these changes would be feasible and advisable to incorporate into the BCM?

See response to question 59, supra.

61. Should the support calculated using the Benchmark Cost Model also reflect subscriber income levels, as suggested by the Puerto Rico Telephone Company in its comments?

CBG data on income levels are available and could, theoretically, be used as an input to the BCM. However, such adjustments would not be desirable for a model intended to estimate the costs of providing telephone service in a given geographical area. It is essential that the telecommunications infrastructure investment be made to serve all

subscribers, including those with both high and low income levels (which may be served by the same facilities in a given area) Rather than attempt to adjust costing models to reflect subscriber income, the Commission should continue to improve current Lifeline Assistance programs, which target assistance to low income subscribers based on individual need

62. The BCM appears to compare unseparated costs, calculated using a proxy methodology, with a nationwide local benchmark rate. Does use of the BCM suggest that the costs calculated by the model would be recovered only through services included in the benchmark rate? Does the BCM require changes to existing separations and access charge rules? Is the model designed to change as those rules are changed? Does the comparison of model costs with a local rate affordability benchmark create an opportunity for over-recovery from universal service support mechanisms?

NECA understands that the primary intent of the BCM was to identify relatively "high-cost" CBGs from "lower cost" CBGs for which explicit support might be required. The precise way in which such a model might be used to calculate support remains unclear. If the BCM or some other proxy model is used to identify high cost areas for support, changes to current rules are likely to be required. Extreme caution should be exercised in any attempt to relate proxy-based network infrastructure costs to any specific current or future "service."

63. Is it feasible and/or advisable to integrate the grid cell structure used in the Cost Proxy Model (CPM) proposed by Pacific Telesis into the BCM for identifying terrain and population in areas where population density is low?

Integrating more "granular" data on customer locations within the BCM may prove beneficial NECA is currently studying such approaches as part of its analysis of the proxy alternatives

Cost Proxy Model Proposed by Pacific Telesis

64. Can the grid cell structure used in the CPM reasonably identify population distribution in sparsely-populated areas?

NECA's preliminary analysis indicates that, while the grid cell structure used in the CPM provides a more accurate way of identifying population distribution in sparsely-populated areas than the CBG structure used in the BCM, mapping problems remain for areas served by small companies. This occurs because the grids do not recognize relevant boundaries affecting costs (i.e., exchange, state, etc.).

65. Can the CPM be modified to identify terrain and soil type by grid cell?

NECA does not currently have data sufficient to respond.

66. Can the CPM be used on a nationwide basis to estimate the cost of providing basic residential service?

See question 62 response, supra.

67. Using the CPM, what costs would be calculated by Census Block Group and by wire center for serving a rural, high-cost state (e.g., Arkansas)?

As noted above, NECA is currently analyzing the CPM and expects to complete preliminary comparisons of results produced by this model with actual costs. NECA plans to provide a full report of its analysis in its August 9th comments.

68. Is the CPM a self-contained model, or does it rely on other models, and if so, to what extent?

See response to question 67, supra.

SLC/CCLC

69. If a portion of the CCL charge represents a subsidy to support universal service, what is the total amount of the subsidy? Please provide supporting evidence to substantiate such estimates. Supporting evidence should indicate the cost methodology used to estimate the magnitude of the subsidy (e.g., long-run incremental, short-run incremental, fully-distributed).

The carrier common line charge (CCLC) is designed to recover a portion of the joint and common costs associated with providing subscriber line plant. CCLC levels are based on common line costs derived pursuant to the Commission's Part 36 separations rules and Part 69 access charge rules

The Part 36 separations rules reflect carefully-considered Commission and Joint Board policy judgments regarding the extent to which costs of subscriber loop plant should be allocated between intrastate services and interstate services.[12] Similarly, the Commission's Part 69 access charge rules reflect policy judgments regarding the allocation of interstate costs among various classes of users (assigning, for example, a portion of common line costs to end users via the subscriber line charge (SLC) element and a portion to interstate access customers via the CCLC).

It is certainly possible to identify the magnitude and proportions of common line costs allocated to the interstate jurisdiction and to particular cost recovery mechanisms. For example, incumbent LECs interstate common line costs currently total about $11.5 billion per year, of which $7.9 billion is recovered from end users via SLCs and $3.6

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[12] The Commission's Part 36 rules are based on long-standing regulatory separations practices, which in turn can be traced to the constitutional requirement for separation between state and federal regulatory spheres. See Smith v. Illinois Bell Tel. Co., 283 U.S. 133, 151 (1930). See also Com. Car. Bur., FCC, Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms 92-93 (1996).

billion from access customers [13] However, no particular portion of the CCLC or any other common line cost recovery mechanism -- including USF amounts -- can be specifically identified as a "subsidy."[14]

Considering the enormous changes in the industry that have occurred since the early 1980s, when current separations and access charge rules were formulated, the Commission and the Joint Board may wish to reexamine current cost allocation and recovery policies It may be the case, for example, that the 25 percent gross allocator used to apportion common line costs between the jurisdictions no longer reflects a reasonable allocation between interstate and intrastate plant usage, and should therefore be adjusted upward or downward Or, the Commission may wish to consider changes in the way that interstate NTS plant costs are recovered As the Rural Telephone Coalition (RTC) has stated

> To the extent that the current division of the interstate portion of LEC non-traffic sensitive costs between CCL and SLC is not properly set to comparable market realities, adjustment may be required in either the capped level of the SLC charge, the manner in which the CCL cost is recovered, or both . . . Similarly, any revisions to the Long Term Support mechanism can and should be accommodated at the time these adjustments

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[13] The rules also permit incumbent LECs with higher-than-average loop costs to allocate an additional portion of loop-related costs to the interstate jurisdiction for recovery via the interstate Universal Service Fund See 47 C.F.R. § 36 601 et seq.

[14] The argument that carrier common line costs and/or USF amounts are "subsidies" was considered and rejected by the Commission and the Courts years ago. Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, Decision and Order, 96 FCC 2d 781, 785-797 (1984), aff'd sub nom. Rural Telephone Coalition v. FCC, 838 F 2d 1307, 1314-1315 (D.C. Cir 1988). It is unclear why the Commission would wish to reopen the question at this time.

are made [15]

Current "caps" on SLC recovery specified in the Commission's Part 69 rules could be reexamined as part of such an inquiry as well as regulatory policies that result in application of access charges to one class of users (interexchange carriers) while exempting others (e.g., ESPs).

Decisions to adjust current cost allocation percentages between the interstate and intrastate jurisdictions or to change the recovery of those costs from particular classes of users must be made based on careful consideration of factors affecting cost and should reflect to some extent the use of facilities [16] Such inquiries might be made in the context of this proceeding or in the Commission's planned proceeding on access charge reform. Decisions based on such efforts are far more likely to be sustainable than decisions based on meaningless distinctions between "subsidy" and "cost recovery" portions of non-traffic sensitive plant costs

70. If a portion of the CCL charge represents a contribution to the recovery of loop costs, please identify and discuss alternatives to the CCL charge for recovery of those costs from all interstate telecommunications service providers (e.g., bulk billing, flat rate/per-line charge).

Several alternatives to the CCLC exist for recovery of interstate common line costs allocated to the carrier common line element. For example, the Commission may wish to consider a common recovery mechanism for CCL costs and interstate high-cost fund amounts. This would require inclusion of interstate CCL amounts within the universal

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[15] CC Docket 96-45, Rural Telephone Coalition Comments (filed April 12, 1996) at 17-18.

[16] See Smith, 283 U.S. 133.

service billing mechanism described above in NECA's response to question 6, with amounts to be recovered from interstate carriers based on proportionate shares of interstate revenues.

Another approach would be a form of bulk billing similar to that for which NYNEX received a waiver last year.[17] Such bulk billing could be based upon interstate toll minutes that access customers originate or terminate in a particular region or area. As in NYNEX's plan, interstate service providers could report toll minutes to a third party which would compute toll minute market shares for the LEC(s) represented in a particular region or area, and report that data to that LEC for billing purposes.

Low-Income Consumers

71. Should the new universal service fund provide support for the Lifeline and Linkup programs, in order to make those subsidies technologically and competitively neutral? If so, should the amount of the lifeline subsidy still be tied, as it is now, to the amount of the subscriber line charge?

Section 254(j) of the Act states that "nothing in this section shall affect the collection, distribution, or administration of the Lifeline Assistance Program provided for by the Commission" under 47 C.F.R. § 69.117. This provision clearly evidences Congress' intent that support for existing Lifeline and Linkup programs should continue. As discussed above in response to question 26, however, the method by which Lifeline Assistance amounts are funded should be changed from the current PSL-based tariff collection method to a revenue-based allocation method, under Commission rules

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[17] See The NYNEX Telephone Companies Petition for Waiver, Transition Plan to Preserve Universal Service in a Competitive Environment, Memorandum Opinion and Order, FCC 95-185 (rel. May 4, 1995).

applicable to all interstate service providers

The Commission may also wish to consider ways to make current Lifeline Assistance amounts available to all carriers providing local exchange service to customers that qualify for Lifeline Assistance benefits under the current rules. See supra, response to question 26. This may require consideration of alternatives to the current Subscriber Line Charge Waiver program, such as a discount based on a fixed dollar amount rather than the incumbent carrier's subscriber line charge

Administration of Universal Service Support

72. Section 254(d) of the 1996 Act provides that the Commission may exempt carriers from contributing to the support of universal service if their contribution would be "de minimis." The conference report indicates that "[t]he conferees intend that this authority would only be used in cases where the administrative cost of collecting contributions from a carrier or carriers would exceed the contribution that carrier would otherwise have to make under the formula for contributions selected by the Commission." What levels of administrative costs should be expected per carrier under the various methods that have been proposed for funding (e.g., gross revenues, revenues net of payments to other carriers, retail revenues, etc.)?

The costs of collecting funds from contributors vary depending on the scope and extent of identification, verification and enforcement duties required of the fund administrator

Perhaps the most significant factor in devising such estimates is whether payment obligations are imposed pursuant to carrier-initiated tariffs or pursuant to Commission rule. Since 1989, NECA has collected funds for the Commission's Universal Service Fund and Lifeline Assistance programs on the basis of tariffed charges applicable to interexchange carriers with more than 0.5% of nationwide presubscribed lines. See 47

C.F.R. § 69.116 and 117. Since 1993, NECA has also collected funds for the interstate Telecommunications Relay Services (TRS) fund from all interstate carriers on the basis of interstate gross revenues. Carriers are required to contribute to the TRS cost recovery mechanism pursuant to an explicit FCC rule. See 47 C.F.R. § 64.604(c)(4)(iii)(A).

Based on its experience in administering the USF/LA program and the TRS program, NECA strongly suggests that the Commission adopt an approach similar to the TRS mechanism for the current universal service cost recovery programs, as well as any new programs developed in this proceeding.

The current USF/LA collection mechanism imposes substantial identification, verification and enforcement burdens on exchange carriers and the administrator. The USF/LA rules require more than 1000 incumbent exchange carriers to collect and supply NECA with extensive presubscribed line data twice each year. These data are collected and obtained solely for the purpose of supporting USF/LA billing. Data are gathered for about 600 interexchange carriers, yet, as of December 1995, only forty-seven qualified as having more than .05 percent of the total industry presubscribed lines. Questions have arisen as to whether PSLs of affiliated interexchange carriers should be aggregated for purposes of determining whether the .05% criterion has been met.

Use of historical PSL data also necessitates complicated "true up" billing mechanisms. See NECA Tariff F.C.C. No. 5, Sections 8.4 - 8.8. Further, because interexchange carriers do not have the ability to count their presubscribed lines directly, disputes regarding PSL counts can be very difficult to resolve. Dispute resolution is often made more problematic because the underlying data can be several years old by the time a

dispute is analyzed. While uncollectible amounts arising from these disputes are relatively minor, a disproportionate amount of administrative effort is required of NECA and exchange carriers to resolve PSL disputes and issues relating to NECA tariff authority.

As noted above in response to question 26, the 1996 Act requires that every interstate carrier contribute to the universal service cost recovery mechanism. Not all interstate carriers have PSLs. Thus, it is not clear whether the current system could be maintained in any event. If the current system is maintained, however, PSL data would have to be obtained from new local exchange carriers, who are not currently subject to the reporting requirements contained in part 69 of the Commission's rules. If counts from these carriers are not included in either the individual interexchange carrier or the national presubscribed line counts, USF and LA rates would be artificially inflated and billing results distorted.

Since 1993 the Commission has relied on a revenue-based collection mechanism to fund interstate Telecommunications Relay Services. This mechanism, in addition to being a superior measure of carrier market share, eliminates many of administrative problems associated with the current PSL allocation system.

Approximately 3,000 telecommunications service providers contribute to the TRS fund. Carrier obligations to contribute to the TRS fund are established by Commission rule (as opposed to a carrier-initiated tariff) with billing factors determined by the Commission itself. This has significantly reduced controversy over questions relating to the administrator's authority to collect fund amounts, and avoids problems associated with verifying presubscribed line counts.

NECA's experience in administering the TRS fund indicates that the costs of processing carrier contributions are minimal.[18] It is likely that additional scrutiny and administrative resources will be required in processing contributions in the future, regardless of the collection mechanism used, if for no other reason than the size of the contributions being collected. For example, NECA anticipates a need to increase substantially the amount of effort devoted to review of reported revenue data for new universal service mechanisms, given the higher amounts involved. Proportionately greater resources would also be needed to review cost and/or proxy data reported by universal service support recipients.

TRS contributions are based on gross interstate revenues. This has tended to minimize expenses associated with verification of revenue data. If the Commission adopts an alternative "netting" approach for universal service fund collections, administrative expenses would likely increase further, as questions are raised about methods of determining netting amounts.

Should the Commission chose some form of revenues as the basis for determining Universal Service contributions, the FCC Form 431, with modifications, would provide a workable model. The form currently requires carriers to report gross revenues. If the Commission wishes to change the contribution base, it would need to make revisions to the form to permit identification of retail revenues or netting of payments to other carriers.

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[18] Processing individual TRS contributor forms costs about $20 per year per contributor. This estimate includes only the costs of entering TRS Form 431 data into NECA systems and does not include other costs associated with collecting contributions (e.g., costs of identifying potential contributors, verifying underlying revenue data, etc.).

In order to permit separate accounting for individual universal service programs Form 431 could be modified to include a separate factor for each.[19]

NECA does not recommend establishment of any "de minimis" contribution threshold for new universal service fund contributions. Establishment of a threshold would likely add unnecessary complexity and additional administrative expense, as carriers near the threshold seek to avoid payment obligations. To reduce administrative expenses associated with processing small contributions, the Commission may wish to consider specifying some minimum contribution level (e.g., $100). This approach appears to work well in the TRS context, and may help reduce questions about billing thresholds.[20] Further, to avoid questions about affiliation status, the Commission should make clear that each legal entity operating as an interstate carrier is required to contribute to the fund, regardless of whether it is affiliated with other carrier entities.

Respectfully submitted,

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

By: _____
Richard A. Askoff

Its Attorney

August 2, 1996

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[19] This may be particularly useful if the Commission determines that only certain revenues should be used to fund a specific program.

[20] Assuming a fund of $1 billion, using TRS reported revenues, the $100 minimum equates to approximately $10,000 of interstate revenue (a $5 billion fund would equate to $2,000 of interstate revenue, a $10 billion fund, $1,000).

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Comments were served this 2nd day of August, 1996, by mailing copies thereof by United States Mail, first class postage paid, or hand delivery, to the persons listed below

By _____
Perry Goldschein

The following parties were served:

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